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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262

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REPLY COMMENTS
OF
ALIANT COMMUNICATIONS CO.

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February 14, 1997

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Aliant Communications Co. ("Aliant"), by its attorneys, hereby replies to the comments filed in response to the Notice of Proposed Rulemaking[1] ("NPRM") in the above-referenced proceeding.

I. INTRODUCTION

The Commission's NPRM sought comment on a series of proposed reforms to the existing access charge rate structure rules in an effort to eliminate certain inefficiencies. Specifically, the Commission requested comment on various access rate structure modifications and the adoption of a market-based or prescriptive approach to access charge regulation. Aliant is responding to certain comments made by parties advocating a prescriptive approach.

II. REAL COSTS

AT&T and MCI advocate $10 to $12 billion in access reductions[2] in such a manner that one might assume they are talking about "phantom" costs. Access costs are real costs, not some figment of the LEC's imagination. Nor are these access costs imprudent.[3] These costs have been incurred

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1 Access Charge Reform, Notice of Proposed Rulemaking, CC Docket No. 96-262, FCC 96-488, Released December 24, 1996.

2 *See* AT&T Comments at 3, MCI Comments at 8 .

3 AT&T Comments at 6.

in the normal course of providing ubiquitous telephone services and allocated according to Commission rules. Initial price cap rates were based on rate of return projections that were reviewed and approved by the Commission.[4] Prior to approval, the Commission did extensive trend-line analysis and examined past cost history. Further, LECs' books are audited on a yearly basis, during which the existence of all costs on LECs' books are verified. The facilities, represented by these costs, do exist and are used in the provision of interstate access services. If these costs are better recovered from another customer or service, each LEC needs the flexibility and time to rebalance the affected rates with its customers, state regulators and any universal service funding. If the FCC does not allow this rebalancing and arbitrarily forces access prices to TELRIC, a massive shortfall in revenue will occur. Absent rebalancing, if Aliant's access charges were forced to $0.01/minute, its 1995 rate of return would have been 2.55%. If access charges were at $0.005/minute, Aliant's 1995 rate of return would have been -1.06%[5]. The implication is clear, if the Commission does not give LECs the flexibility and time to rebalance rates, confiscation will occur. It is imperative that the Commission give LECs the flexibility to rebalance access prices within price caps and the time to work with state legislators and commissions to rebalance prices across jurisdictions.

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4 For Aliant, *see* 1992 Annual Access Tariff Filings, CC Docket 92-141, *Memorandum Opinion and Order* (released June 22, 1992).

5 See Attachment A.

III. NEW OPPORTUNITIES

The fact that "new opportunities" may await LECs is irrelevant to this proceeding[6]. Further, few, if any, new opportunities exists for non-RBOCs. Aliant has competed in the long distance business for many years and has found that even within Aliant's own operating territory, AT&T and MCI have significantly more market power. Mid-size companies like Aliant will never be able to advertise during the Superbowl or hire nationally recognized personalities like Whitney Houston and Seinfeld characters to do advertising. The Commission cannot cite to potential "new opportunities" as justification for a massive dislocation of access charge revenues.

IV. X-FACTOR

AT&T[7] and MCI[8] advocate X-Factors in the 10% range. Again this is nothing but smoke and mirrors. AT&T claims to have figured out how to economically separate joint and common inputs, something that nearly every economist says is impossible. While MCI relies on a study put forth in the CC Docket No. 94-1 proceeding, that study is misleading and is simply wrong. USTA has rebutted these erroneous studies many times on the record. But theory aside, the Commission must examine what a 10% X-Factor really would mean. Assuming a GDP-PI value of 2.5%, a 10% X-Factor would force a price reduction of 7.5%. In the CC Docket No. 94-1 proceeding,[9] the Commission found that LEC total factor productivity ("TFP") is equal to the percentage change in

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[6] MCI Comments at 3.

[7] AT&T Comments at 8.

[8] *See* MCI Comments at 25.

[9] *See*, Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, (released April 7, 1995) at Appendix F.

input prices less the percentage change in output prices[10] and that LEC TFP is also equal to the percentage change in output quantity less the percentage change in input quantity.[11] Substituting and solving for the percentage change in output quantity shows that the output growth needed by a LEC is equal to the percentage change in input prices less the percentage change in output prices plus the percentage change in input quantity.[12] We know the percentage change in output prices is -7.5% (2.5% GDP-PI less 10% X-Factor), and assuming input price growth of 3.0% and no growth in input quantity, output quantity growth would have to be at least 10.5%.[13] If one assumes an equal weight between lines and minutes[14] and line growth of 3.0%, a LEC would have to generate 18% minute growth[15] to attain the productivity implied in a 10% X-Factor. This has never occurred in the past and will be virtually impossible in the future with the opening of LEC networks to competition.

V. 2% COMPANIES

While the Act does not specifically address access charge flexibility, the 2% waiver provision makes it clear that Congress recognizes the need for regulatory distinction between the largest carriers and the rest of the industry. Mid-size carriers such as Aliant are in a very precarious position, large enough to attract competition from global carriers such as AT&T and MCI, but

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10 *See* Appendix F, Page 3, Equation 3 ($\%\Delta TFP = \%\Delta W - \%\Delta P$).

11 *See* Appendix F, Page 3, Equation 2 ($\%\Delta TFP = \%\Delta Q - \%\Delta I$).

12 $\%\Delta Q - \%\Delta I = \%\Delta W - \%\Delta P \Rightarrow \%\Delta Q = \%\Delta W - \%\Delta P + \%\Delta I$

13 $\%\Delta Q = 3.0\% - (-7.5\%) + 0.0\% = 10.5\%$

14 Approximately 51% of Aliant's price cap revenues are recovered on a minute of use basis. *See* 1996 Annual Filing Tariff Review Plan.

15 $10.5\% = (3.0\% * .5) + (\%\Delta M * .5)$
$\%\Delta M = (10.5\% - (3.0\% * .5)) / .5 = 18\%$

unable to compete on a nationwide basis. Mid-size companies represent a vital source of competition and should not be regulated out of the marketplace. Thus, it is imperative that mid-size LECs have the flexibility to meet the competitive threats and remain viable business entities.

VI. Conclusion

In conclusion, the Commission should reject the prescriptive approach to access charge regulation and allow LECs the flexibility needed to rebalance prices and compete effectively in the marketplace.

Respectfully submitted,

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ATTACHMENT A

RATE OF RETURN IMPACT @ $0.01/MOU & $0.005/MOU

Ln#	Description		Source	Actual 1995 Revenues			1995 Revenues @ $0.01/MOU	1995 Revenues @ $0.005/MOU
1	Common Line	1995 43-04	Ln 4014, Col I	$11,649,257				
2	End User Common Line	1995 43-04	Ln 4010, Col D		$10,932,736	$10,932,736	$10,932,736	$10,932,736
3	Carrier Common Line	Ln1-Ln2			$716,521			
4	Payphone Cost	Payphone Filing	EXG-SUM-SUPP, Ln 6			$273,362	$273,362	$273,362
5	Carrier Common Line	Ln3-Ln4				$443,159	$0	$0
6	Local Switching	1995 43-04	Ln 4014, Col J	$9,732,007				
7	800 Database	Records				$386,007	$386,007	$386,007
8	Local Switching	Ln6-Ln7				$9,346,000	$0	$0
9	Information	1995 43-04	Ln 4014, Col M	$242,990		$242,990	$0	$0
10	Transport	1995 43-04	Ln 4014, Col L	$7,726,010				
11	Non-Recurring	Records				$14,910	$14,910	$14,910
12	Transport	Ln10-Ln11				$7,711,100	$0	$0
13	Special Access	1995 43-04	Ln 4014, Col O	$3,425,454		$3,425,454	$3,425,454	$3,425,454
14	Interstate IntraLATA	Records		$37,370		$37,370	$37,370	$37,370
15	Excluded Services	Records		($333,295)		($333,295)	($333,295)	($333,295)
16	Addback	1996 Annual Filing	EXG-SHR, Page 1, Ln 6	$1,105,360		$1,105,360	$1,105,360	$1,105,360
17	1995 Local Switching Minutes	1996 Annual Filing	RTE-1, Page 2, Col A, Ln200+Ln210	616,719,940		N/A	616,719,940	616,719,940
18	Per Minute Price					N/A	$0.010	$0.005
19	Per Minute Revenue	Ln17*Ln18				N/A	$6,167,199	$3,083,600
20	Total Revenue	Sum(Ln1..Ln16)+Ln19				$33,585,153	$22,009,104	$18,925,504
21	Operating Expenses	1996 Annual Filing	EXG-SHR, Page 1, Ln 8			$21,029,570	$21,029,570	$21,029,570
22	Tax Base Adjustments	1996 Annual Filing	EXG-SHR, Page 1, Ln 9			($112,093)	($112,093)	($112,093)
23	Fixed Charges	1996 Annual Filing	EXG-SHR, Page 1, Ln 10			$1,219,634	$1,219,634	$1,219,634
24	ITC Amortization	1996 Annual Filing	EXG-SHR, Page 1, Ln 13			$280,871	$280,871	$280,871
25	Interest During Construction	1996 Annual Filing	EXG-SHR, Page 1, Ln 16			$1,084	$1,084	$1,084
26	State Income Tax Rate	1996 Annual Filing	EXG-SHR, Page 1, Ln 11			7.81%	7.81%	7.81%
27	Federal Income Tax Rate	1996 Annual Filing	EXG-SHR, Page 1, Ln 14			35.00%	35.00%	35.00%
28	Net Income	Ln20-Ln21-(Ln20-Ln21-Ln22-Ln23)*(Ln26+Ln27)/(1+Ln26)+Ln24+Ln25				$8,291,664	$1,312,319	($546,822)
29	Investment	1996 Annual Filing	EXG-SHR, Page 2, Ln3, Col A			$51,540,699	$51,540,699	$51,540,699
30	Rate of Return	Ln28/Ln29				16.09%	2.55%	-1.06%